



February 3, 2010

Ms. Mary Tavegia
Issuing Officer
Iowa Department of Human Services
Iowa Medicaid Enterprise
200 Army Post Road, Suite 2
Des Moines, Iowa 50315

Re: Request for Best and Final Offer for Proposal for Medicaid Enterprise Professional Services for the State of Iowa RFP No. MED-10-001 – Estate Recovery and Medical Assistance Income/Special Needs Trust Recovery Component.

Dear Ms. Tavegia:

HMS and its partner SUMO Group are pleased to submit our response to your request for a Best and Final Offer (BAFO) to our proposal for Iowa Medicaid Enterprise (IME) services submitted on December 10, 2009 for Estate Recovery and Medical Assistance Income/Special Needs Trust Recovery.

Over the past 15 years, HMS/SUMO and the Department have built one of the most successful estate recovery services programs in the nation. Through our comprehensive and long-term estate recovery project experience, HMS/SUMO offers the Department a proven approach and IME tested estate recovery product. **HMS/SUMO has generated more than \$142 million in recoveries over the past 15 years, and recovered more than \$17 million in State Fiscal Year 2009 alone.**

The estate recovery process we perform for the Department is a highly sensitive collection process which requires a significant level of understanding and institutional context. To maximize recoveries in Iowa, HMS/SUMO has made significant program investments in this highly complicated recovery practice.

We sincerely view our relationship with the Department as partnering to achieve the best results for Iowa and we appreciate the opportunity to build on this relationship in the next contract term. Given the budgetary restrictions that are currently impacting Iowa and the rest of the nation, HMS/SUMO's proven ability to return significant revenue to the Iowa Medicaid Fund through the collection of estate recovery funds will continue to be a key component in the Department's efforts to spend wisely and stretch taxpayer dollars as far as possible to provide healthcare to Iowa's neediest citizens.

In preparing our competitive cost proposal for RFP No. MED-10-001 – Estate Recovery and Medical Assistance Income/Special Needs Trust Recovery Component, HMS/SUMO factored in a number of considerations including: market place pricing for estate recovery services nationally; the cost of securing additional resources to increase recovery levels over the course of the proposed engagement; program cost of living expenses increasing for the Iowa estate recovery engagement

(since the current contingency fee of 7.5% was set in 2001 and the end of the proposed engagement is 2016); business risk/investment factors, including recent and potential changes in laws that affect recoveries; and the budgetary restrictions impacting Iowa and the IME.

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Currently, the going rate for estate recovery services nationally, based on competitively bid procurements in Colorado, Alabama, and Michigan that HMS has secured in the last 12 months is a contingency rate fee of between 10% and 12%. Consequently, HMS/SUMO believes the 9.9% fee is an aggressive price for the services and performance that HMS/SUMO bid on December 10, 2009.

Increasing Staff Resources to Achieve Higher Recovery Levels:

Based on the Iowa Estate Recovery Program's 15 year history, HMS/SUMO understands the arithmetic that increased resources plus existing program model equals increased recovery levels. In order to maintain the growth trend line of the Iowa estate recovery program over the proposed time period of this RFP, HMS/SUMO will need to significantly increase the resources required to achieve those recovery levels. Given the highly manual nature of the very successful HMS/SUMO estate recovery program in Iowa, additional resources translate into more staff and more staff cost. The 9.9% contingency fee provided in its December 10, 2009 proposal is a reflection of the cost associated with securing those additional program assets over the course of the proposed engagement period.

Cost of Living Considerations:

The current 7.5% contingency rate was bid and accepted in 2004. That same fee was in place for the HMS/SUMO estate recovery engagement with the State of Iowa for its 2001 to 2004 engagement. In the intervening 8 years, the cost of doing business has risen significantly in the area that is most integral to the execution of a superior estate recovery program, i.e. the cost of retaining knowledgeable and expert staff. Additionally, it is expected that these personnel costs, and those required to recruit new qualified staff for this proposed procurement, will continue to increase significantly over the next three to six years. It is with the cost of living factors of a 12 to 16 year engagement period (2001 contract to the last option year of the proposed engagement – potentially 2016) that HMS/SUMO proposed its 9.9% contingency rate fee in its December 10, 2010 proposal.

Business Risk/Investment Recovery Factors:

Estate Recovery is a lot like farming, you plant seeds in the hope that something will grow months down the road -- and then pray for rain. There are significant risk factors to companies that invest in estate recovery services. The average time to recoup a staff raise (collectively) or a 30% increase on a health plan is anywhere from four to six months. This cost recovery is even more pronounced when a new position or positions are added – often taking more than a year until that investment begins to payout in the form of increased recovery levels. Moreover, during this entire time the program is subject to a legislative change – such as the MIPPA crossover payment exclusion negatively impacting recovery levels. The program may also be subject to crashes in the credit or real estate markets – as we saw in 2008/2009. Court rulings could also exclude entire categories of collections from recovery as happened with the Ahlborn case on the casualty lien recovery piece of revenue collections. HMS/SUMO factored this investment risk mitigation into to the proposed cost proposal it submitted on December 10, 2009.

Best and Final Offer for December 10, 2009 HMS/SUMO Proposal:

In consideration of the State's request that HMS/SUMO revisit its cost proposal to see if any adjustments can be made, and in light of the relevant cost considerations noted above, HMS/SUMO is providing the following two options to the State of Iowa.

- 1) A rate reduction to 9.75% for the base term of the contract, and 9.9% for each option year.
- 2) A tiered structure for recoveries that provides a lower contingency fee for recoveries up to \$18M, but provides a higher fee for increased recoveries, which provides HMS/SUMO increased fees to cover additional expenses required for increased recoveries. We propose the following fee structure, which would remain in place for the base contract and the option years:
 - a. Recoveries up to \$18M – 9.5% contingency fee
 - b. Recoveries from \$18M to \$25M – 10.5% contingency fee
 - c. Recoveries greater than \$25M – 11.5% contingency fee

We appreciate the opportunity to respond to your request for a best and final offer. Please feel free to contact me should you have any additional questions.

Sincerely,



Maria Perrin
Executive Vice President, Government Markets